EDITOR: JOHN P. GILL

Atlanta ECONOMIC REVIEW

Prepared monthly as a service to Atlanta Citizens by the Council on Economic Research, Atlanta Division, University of Georgia

Vol. III, No. VI | Atlanta, Georgia | June, 1953

THE SAVINGS AND LOAN ASSOCIATION IN OUR LOCAL ECONOMY

By ED W. HILES

Executive Vice-President, Georgia Savings and Loan League, Inc.

It has been a relatively short time ago that Georgia business and industry, including its extremely active building industry, had to look to sources outside the state of Georgia for operating capital. Today, the available supply of investment capital in this state is at the highest point in history and Georgia's current record-making industrial expansion and building program is moving forward primarily on locally supplied capital funds.

One of the major contributing factors to this change in Georgia's economic picture has been the rapid development of Georgia's seventy-five local community-owned mutual savings institutions, more commonly recognized as savings and loan associations. These specialiazed financial institutions have become a major factor in the economic structure of the state. Their rise to prominence has occurred primarily in the post-World War II years; however, the history of these institutions in Georgia dates back to the turn of the century with an organized movement actually not getting under-way until the middle of the 1920's.

The savings and loan idea is by no means new or novel. The program espoused by these present day savings associations is traceable directly to the operations of the British Building Societies of the early nineteenth century. The first association of this type in America was organized in Frankford, Pennsylvania, in 1831. The first home loan made by one of these institutions was made to the village lamplighter of Frankford, in the amount of \$365.00. The home which was purchased with these funds still stands on Orchard Street in Frankford, which is now a part of Philadelphia. While the house was purchased recently by the savings and loan business as a permanent shrine it is actually occupied today on a rental basis by a veteran of World War II and his family.

The savings and loan associations have stood the test of time and, while the actual method of operation in the modern institution of today is quite different from that of the original Oxford Provident Association of Frankford, the basic characteristic of mutuality still prevails. Actually, a savings and loan association or building and loan association is a place where an individual can (1) save money and (2) finance a home. It is a community financial institution which lends the savings entrusted to it to people who want to buy or build homes and who must borrow money in order to do so. The money which is loaned is paid back in monthly installments over a fixed period of time. Actually, these institutions are the only specialized homeowner credit institutions in the entire American financial system.

Today, there are more than 6,500 such savings institutions operating in every state in the Union. Nationwide, this business represents some twenty-five billion dollars in thrift and home-ownership. In Georgia, total resources of these institutions have climbed from less than one million dollars in 1929 to more than three hundred fifty million dollars today.

Originally designed to provide a source of home-financing credit for persons of moderate income, these associations have developed into highly specialized savings institutions as the source of lending funds to carry out their home-financing objectives. As a result of the combination of these two primary savings and loan objectives, more than three hundred fifty million dollars of savings of Georgia families have been accumulated and made available for home-ownership purposes in this state which otherwise might easily have gone into investments in stocks and bonds of corporations and businesses outside the state. Consequently, thousands of additional Georgia families now are enjoying the privilege of occupying their own homes, thereby making

(Continued on Page 2)

for better communities and a better state.

The savings and loan business maintains its own reserve credit system similar to the Federal Reserve System, which serves commercial banks. This was made possible as a direct result of recognition by the United States Congress of the contribution existing building and loan associations had made to thrift and home-ownership during the early part of the twentieth century. The Congress passed legislation setting up a system of Federal Home Loan Banks located in twelve districts throughout the country. The primary purpose of these district banks was to provide a source of supplementary funds for local savings and loan or building and loan associations where the available supply of local savings might not be adequate to meet current home financing needs. Although originally established with capital invested by the Government, these reserve banks are now wholly owned by the savings and loan and building and loan associations in their respective districts. The district bank serving the associations in Atlanta and throughout Georgia is located at Greensboro, North Carolina. Mr. W. O. DuVall of Atlanta, president of the Atlanta Federal Savings & Loan Association, is Vice-Chairman of the Board of Directors of that district bank.

In further recognition of the importance of these specialized financial institutions, the Congress, at the same time the reserve system was established, also provided a means whereby, for the first time, institutions of this type could be chartered by the federal government. This legislation was passed in 1933, and most of the associations organized since that time have been federally chartered. During this period also, many associations originally chartered by the state have converted into federal chartered associations.

Perhaps the greatest boon to the savings and loan movement made possible through congressional action was the insurance of savings accounts in these institutions on a basis similar to insurance of accounts in commercial banks. The Federal Savings & Loan Insurance Corporation was established for this purpose in 1933, and all federal associations and most of the state chartered associations now maintain this insurance which guarantees the safety of an individual account up to $10,000 in any insured association. There is no doubt but that the steps taken by the federal government to afford this protection and a comprehensive program of supervision of these institutions did more than anything else to capture public confidence and set them on the road to the rapid growth which they have experienced in the past two decades.

Associations in the metropolitan Atlanta area boast one of the finest records in the country in rate and soundness of growth. There are twelve associations currently operating in the area with five branch offices, representing more than two hundred million dollars in thrift and home ownership for citizens of the area.

Due to the mutual aspect of the operations of these institutions, the savings account holder is able to enjoy a higher rate of return than on other investments of comparable safety and convenience. In 1952, the associations in the metropolitan area distributed more than six million dollars in earnings to holders of savings accounts in these associations. This distribution is made on a semi-annual basis and the June 30, 1953, distribution of earnings is expected to exceed three and one-half million dollars in this area.

Unlike the lending activities of these institutions, the savings function is not confined to any restricted area. Consequently, savings and investment funds are drawn into the associations in the Atlanta area from all parts of the country. While this is an important factor, it does not constitute any large portion of the total savings volume. Estimates based on a survey of local institutions indicates that approximately 10% of these savings funds in the associations in the metropolitan area come from outside the state. This means that of the nearly $225,000,000 in savings held by these institutions, more than $200,000,000 of this amount represents the accumulation of surplus funds of individuals and families in Georgia and primarily within the metropolitan area. The eligibility of these associations for trust and endowment funds and for investment funds of corporations and public agencies as specifically provided by state law has resulted in several million dollars of funds of this type being put to work through these associations to build better communities throughout Georgia.

At the present time, savings funds are flowing into Atlanta area associations at a rate of from three to four million dollars per month. In addition, these associations are continually receiving nearly five million dollars per month in monthly repayments on loans already on the books. All of these funds become immediately available for reinvestment in the area in first mortgage real estate loans. Consequently, it does not appear that the local economy is faced with any shortage of home mortgage credit at any time in the near future. We are occasionally told of instances where builders, and in some cases prospective home buyers, complain of the lack of home financing funds. As a general rule, the problem can be traced to the lack of down-payment money rather than a lack of home mortgage credit. The modern concept of home financing as practiced through these specialized financial institutions is not unlike any other form of installment financing. In order to assure the solvency of the institutions, and therefore the safety of the funds entrusted with them by savings account holders, it is necessary that their mortgage investments be made to individuals who are able to establish a reasonable equity in the property which is to be financed.

Savings and loan associations throughout the Atlanta area and throughout the state are ready and anxious to help Georgia citizens become home owners on any reasonably sound basis. The regulations under which they operate prohibit them from exceeding certain limitations in advancing funds for home construction or home purchase. The savings facilities of the institutions afford every would-be home owner a means whereby he can accumulate the necessary down-payment funds through the regular practice of the thrift habit. For example, an individual who is willing to set aside fifty dollars a month from his income at a return of 3% per annum could accumulate nearly five thousand dollars in seven years time. He could accumulate twenty-five hundred dollars in less than four years time, and would then be in a position to borrow the balance needed for his home financing effort. As a general rule, the down-payment is expected to run from

twenty to thirty per cent, and in some cases perhaps slightly more, of the purchase price of the property.

The following table shows how the savings funds of an individual will accumulate at various rates of earning. This table is based on savings of $10.00 per month with earnings compounded semi-annually.

	Annual Dividend Rate			
At End of	1½%	2%	2½%	3%
7 years	$ 884.96	$ 902.08	$ 918.43	$ 935.13
10 years	1,293.50	1,328.85	1,363.65	1,399.56
12 years	1,576.22	1,627.85	1,679.44	1,733.04
15 years	2,016.46	2,099.27	2,183.55	2,272.03
20 years	2,795.50	2,950.29	3,111.90	3,284.56

While the savings and loan association is a specialized savings institution, it must be distinguished from a commercial bank since it does not offer a checking account service, does not handle securities for the customers, or perform many of the sundry services of a commercial banking institution. Regardless of this difference, however, these associations are a vital part of the financial structure of our economy.

Representing the largest single block of home mortgage credit in the entire country, the savings and loan business found itself faced with its greatest challenge upon the passage of the Servicemen's Readjustment Act, more commonly known to us as the G. I. Bill of Rights. This legislation was a bold new step in the field of home financing with provision for lending 100% of property value to eligible veteran borrowers for terms ranging as long as twenty years and with an interest rate of 4% fixed by law. Recognizing the necessity for preserving their position in the home financing field, the savings and loan associations in Georgia immediately entered this new G. I. Home Loan Program, and by the end of its second year of operation, more than 90% of the loans made under the provisions of this new law in the state of Georgia had been made by these specialized community savings and loan associations. At the present time, Georgia associations hold between thirty-five and forty million dollars worth of G. I. mortgages and with the increased interest rate recently approved at 4½%, it is anticipated that from twelve to fifteen million dollars in G. I. loans will be added within the next twelve months.

Even without the liberalizations of the G. I. and F. H. A. government insured and guaranteed programs, the direct reduction monthly amortized loan plan espoused by the savings and loan associations affords the average wage-earner a sound and practical approach to home-ownership. The cost of financing a loan to buy or build a home was one of very few budget items which did not increase during the inflationary period of the early post-war years. In fact, home financing costs actually declined considerably while other living expenses were on the increase. During recent weeks, as a result of the change in government fiscal policies, there is beginning to appear a trend toward a firmness in the money market which may result in a slight increase in the interest rate on money borrowed for home financing purposes. The decision of the government leaders to raise the G. I. interest rate from 4% to 4½% is indicative of the recognition of this trend in the money market.

At the present time, the average rate of interest on a prime, top-grade first mortgage on real estate is approximatly 5%. At that rate, the amount required to repay funds borrowed for the purpose of buying or building a home would be $7.91 for each $1,000 borrowed to cover the principal and interest if the loan is extended over a period of 15 years. This monthly payment would be slightly higher over a shorter period of time and slightly lower where loans are extended to run beyond 15 years. In considering a home purchase program, the borrower must also add to this fixed expense the cost of taxes and insurance.

This method of acquiring a home is being followed by more and more Georgia families each day. In the metropolitan area at the present time, the twelve savings and loan associations are lending an average of six and one-quarter million dollars per month. From January through April, total mortgage loans made by the associations in this area amounted to $25,105,000. This represents an increase of nearly $4,000,000 over the same period of 1952, when the total volume of the January-April period was $21,300,000.

In the light of the anticipated continuance of high-level activity in the building industry, it is reasonable to predict that this mortgage loan volume will maintain the present pace for at least the next six months. The long range outlook, however, is for no further increases in mortgage volume and perhaps a slight decrease over the next twelve to eighteen months. This prediction is based upon the indications that a switch from a seller's market to a buyer's market in residential real estate is beginning to appear. This is indicative of a general slowing down in the market but does not necessarily indicate any immediate recession or collapse in this phase of the economy. Trading continues at a relatively high level and whenever trading occurs, home financing of necessity plays a major role. Savings and loan associations anticipate a good year ahead.

Being dedicated to the promotion of thrift and home ownership, the savings and loan associations throughout Georgia have established an objective of a 75% ratio of home-ownership for Georgia families and a savings account equivalent to one year's average income for each family. Meanwhile, through the facilities of these highly specialized financial institutions, millions of dollars of Georgia capital are being put to work monthly building a bigger and better Georgia.

Atlanta Division
UNIVERSITY OF GEORGIA
24 Ivy Street, S.E.
Atlanta 3, Georgia

AVERAGE EARNINGS FOR SELECTED OCCUPATIONS IN ATLANTA ON DATES INDICATED

Occupation	Atlanta (Mar. 1952)		Atlanta (Mar. 1953)	
	Weekly Hours Standard	Weekly Earnings Standard	Weekly Hours Standard	Weekly Earnings Standard
Bookkeeping Machine Operators, Class B, men	39.0	$50.00	40.0	$49.00
Bookkeeping Machine Operators, Class B, women	39.5	45.00	40.0	47.50
Clerks, Order, Men	40.0	65.50	40.0	66.50
Clerks, Order, Women	39.5	44.50	39.5	48.50
Clerks, File, Class A Women	39.5	46.50	39.5	55.00
Billing Machine Operators, Women	40.0	45.50	40.0	51.00
Comptometer Operators, Women	39.0	47.00	39.5	51.00
Secretaries, Women	39.5	60.00	39.5	62.50
Stenographers, General, Women	39.5	50.00	39.5	53.00
Typists, Class A, Women	39.5	46.00	39.5	50.50
Typists, Class B, Women	39.0	38.50	39.5	40.50
Draftsmen	40.0	76.00	40.0	78.00
Truck Driver, light (under 1½ T.) per hr.	——	.96	——	1.09
Watchmen—per hr.	——	.97	——	.98
Carpenters, Maintenance—per hour	——	1.70	——	1.82
Electrician, Maintenance—per hour	——	1.92	——	2.06
Machinists, Maintenance—per hour	——	1.79	——	1.94
Mechanics, Automotive, Maintenance—per hour	——	1.50	——	1.60
Painters, Maintenance—per hour	——	1.75	——	1.85
Janitors, Porters and Cleaners, Men—per hour	——	.92	——	.99
Janitors, Porters and Cleaners, Women—per hour	——	.53	——	.72

Source: U. S. Department of Labor Bulletins.